Section 300
RECORDS RETENTION - FIVE YEARS

Facilities must retain all financial records, statistical records and worksheets to support this cost report for five years. These records and worksheets must be accurate and in sufficient detail to substantiate the reported financial and statistical data. THESE RECORDS MUST BE MADE AVAILABLE AT THE FACILITY.

The financial records of the facility should reconcile to the cost report. Each amount on the cost report must be traceable to any worksheets, accounting ledgers, registers and journals used by the facility. Ultimately, a "track" or audit trail must lead to detailed evidential documents which support the reported amounts as having been incurred expenses. Such documents include, but are not limited to, vendor invoices, checks, payroll registers, time cards, and other similar types of documents. If detailed and organized records are not maintained, then the facility may be required to "construct" such records when the cost report is audited. (Reference: HSS 105.02 Wis. Adm. Code)

Section 400
RELATED PARTIES And RELATED ORGANIZATIONS

In several schedules of this cost report, the synonymous terms "related Party" or "related organization" are used. Expenses resulting from related party transactions must be identified in Schedule 42.

401 Basic Principle

A nursing home provider may incur expenses for services, facilities and supplies furnished by organizations related to the provider by common ownership or control. In lieu of such expenses incurred by the provider, allowable expenses for reimbursement may include the expenses incurred by the related organization for the furnished items. Allowable expenses must not exceed the lessor of:

(1) The expense incurred by the related organization for the services, facilities and supplies which the related party furnished to the nursing home provider,

OR (2) The price of comparable services, facilities or supplies that could be purchased elsewhere.

The purpose of this principle is two-fold: (1) to avoid the payment of a profit factor to the provider through the related organization, and (2) to avoid payment of artificially inflated expenses which may be generated from less than arm's-length bargaining.

402 Reporting Expenses From Related Party Transactions

The expenses incurred by the nursing home provider from transactions with related parties may be included in the expense reporting schedules - Schedules 20 thru 41. Such expenses should then be identified on Schedule 42 along with the expenses incurred by the related supplying organization for the furnished items. Schedule 42 is entitled "Identification Of Expenses From Transactions With Related Parties And Organizations".

A related party's total expenses applicable to a supplied item need only be reported on Schedule 42. Nevertheless, at its option, a provider may attach a sheet on which the expenses applicable to the supplied item or items are reported in detail by type of expense. For example, a related party's expenses for catered dietary services it furnished to the provider may be itemized by salaries and hours (productive and nonproductive), fringe benefits, supplies, utilities, depreciation, interest, etc. These detailed expenses may then be combined with the like expenses of the provider at the time of the reimbursement rate calculation.

The provider must make available to the Department, when requested, adequate documentation to support expenses incurred by the related organization which were attributed to supplies, facilities and services furnished to the nursing home. This may include access to the related organization's books and records. Such documentation must include an identification of the organization's total costs and the allocation of direct and indirect costs to the nursing home provider and to other entities served.

403 Definitions

-- A "related party" or "related organization" is any individual or organization related to the nursing home provider by either common ownership or control.

-- "Related to the provider" means that the provider to a significant extent is associated or affiliated with, or has control of, or is controlled by, the organization furnishing the services, facilities or supplies.

-- "Common ownership" exists when an individual or individuals possess significant ownership or equity in the provider and in the institution or organization serving the provider.

-- "Control" exists where an individual or an organization has the power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or institution.

(Continued on Page 8)

403 Definitions (Continued)

-- "Immediate family relationships" include: husband and wife; natural parent, child and sibling; adopted child and adoptive parent; step-parent, step-child, step-sister, step-brother; father-in-law, mother-in-law, sister-in-law, brother-in-law, son-in-law, daughter-in-law; grandparent and grandchild.

404 Determination Of Relatedness

In determining whether a nursing home provider is related to a supplying organization, the tests of common ownership and control are to be applied separately. If the elements of common ownership or control are not present in both organizations, the organizations are deemed not to be related to each other. The existence of an immediate family relationship will create a rebuttable presumption of relatedness through control.

Related by common ownership. A determination as to whether an individual(s) or organization possesses significant ownership or equity in the provider organization and the supplying organization, so as to consider the organizations related by common ownership, should be made on the basis of the facts and circumstances in each case. This principle applies whether the nursing home provider or the supplying organization is a sole proprietorship, partnership, corporation, trust or estate, or any other form of business organization, proprietary or nonprofit. In the case of a nonprofit organization, ownership or equity interest will be determined by reference to the interest in the assets of the organization (for example, a reversionary interest provided for in the articles of incorporation of nonprofit corporation).

Related by control. The term "control" includes any kind of control, whether or not it is legally enforceable and however it is exercisable or exercised. It is the reality of the control which is decisive, not its form or the mode of its exercise. The facts and circumstances in each case must be examined to ascertain whether legal or effective control does exist. Since a determination reached in a specific case represents a conclusion based on the entire body of facts and circumstances involved, such determination should not be used as a precedent in other cases unless the facts and circumstances are substantially the same.

Generally, the Department will adhere to the Medicare (Title XVIII) program's guidelines and interpretations when examining reimbursement issues arising out of costs to related parties.

405 Exception

An exception is provided to the general rule applicable to related organizations. The exception is intended to cover situations where large quantities of goods and services are supplied to the general public and only incidentally are furnished to a nursing home provider by a related organization. The exception applies if the provider demonstrates by convincing evidence to the satisfaction of the Department that the following criteria have been met:

a. The supplying organization is a bona fide separate organization. This means that the supplier is a separate sole proprietorship, partnership, joint venture, association, or corporation and not merely an operating division of the provider organization.

b. A substantial part of the supplying organization's business activity of the type carried on with the provider is transacted with other organizations not related to the nursing home provider and the supplier by common ownership or control and there is an open, competitive market for the type of services, facilities or supplies furnished by the organization. In determining whether the activities are of a similar type, it is important to also consider the scope of the activity. For example, a full service management contract would not be considered the same type of business activity as a minor data processing contract. The requirement that there be an open, competitive market is merely intended to assure that the item supplied has a readily discernible price that is established though arm's length bargaining by well informed buyers and sellers.

c. The services, facilities or supplies are those which commonly are obtained by institutions such as the nursing home provider from other organizations and are not a basic element of patient care ordinarily furnished directly to patients by such institutions. This requirement means that institutions such as the provider typically obtain the items from outside sources rather than producing the items internally.

d. The charge to the provider is in line with the charge for such services, facilities or supplies in the open market and no more than the charge made under comparable circumstances to others by the organization for such services, facilities or supplies. The phrase "open market" takes the same meaning as "open, competitive market" in (b) above.

If all the above conditions are met, the charge by the related supplier to the nursing home provider for such services, facilities or supplies shall be an allowed expense for reimbursement. The nursing home should report such expenses incurred by the nursing home on Schedule 42 of the cost report and indicate on a separate sheet which expenses from the related party meet the above conditions and how each condition is met. The expense incurred by the related party for the supplied item need not be reported on Schedule 42.

406 Examples Of Related Parties And Organizations

The following examples illustrate the general application of the common ownership and control rules. They are not intended to prescribe, for use in all cases, fixed percentages for determining when significant ownership in or control of an organization exists. Such a determination must be made on the basis of the facts and circumstances in each case.

Example No. 1

Mr. B owns a 60% interest in the nursing home and 55% interest in an organization which supplies the facility. The nursing home and the supplying organization are considered related by common ownership since Mr. B possesses significant ownership in both organizations.

Example No. 2

Mr. X owns a 70% interest in the nursing home and a 40% interest in the supplying organization. The remaining 60% interest in the supplying organization is owned in equal amounts by twenty individuals unrelated to Mr. X. Unless the nursing home can demonstrate to the satisfaction of the Department that Mr. X's ownership interest in the supplying organization is not significant, the nursing home and the supplier are considered related to each other by common ownership.

Example No. 3

Mr. A is the administrator of a provider, but he does not have an ownership interest in the provider. He is also the president and owner of a supplier organization that furnishes various therapeutic services primarily to the provider. Under the circumstances described, it will be presumed that Mr. A has the power to influence or direct both the provider and the supplying organization, and that the organizations are related to each other by common control.

Example No. 4

Mr. A owns a 60% interest in the nursing home provider. Mr. A's two sons and wife together own a 100% interest in the organization supplying the provider. Under the circumstances described, it will be presumed that Mr. A has the power to influence and direct the actions of his family relating to the operation of the supplying organization, and that the organizations are related by common control.

Example No. 5

A construction company builds a facility and leases it to an operating company which becomes a provider. Mr. A owns 100% interest in the construction company and a 35% interest in the nursing home operation. Mr. B, a key employee of the construction company owns a 20% interest in the nursing home operating company. Under the circumstances described, it will be presumed that Mr. A, as the employer of Mr. B in the construction company, can influence Mr. B's decisions relative to the operation of the nursing home and that the construction company and the nursing home provider are related by common control. (Mr. B would probably not jeopardize his position in the construction company by opposing Mr. A's wishes in management of the nursing home.)

Example No. 6

Mr. H owns a 45% interest in Corporation X, the provider organization. The remaining 55% interest is owned by Corporation Y, the supplying organization. Mr. H owns 100% interest in Corporation Y. Thus, Mr. H controls 100% of Corporation X - his own 45% direct interest in Corporation X and the indirect 55% interest owned by Corporation Y. Mr. H has complete control over both the provider and the supplying organization; therefore, the organizations are related by control.

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501 Salary Accruals. Salary and wage expense and its related hours must be accrued to the cost reporting period except for governmental facilities which may use the cash method of accounting. Government facilities are encouraged to use the accrual method for salaries and wages.

A simple and acceptable technique can be used to accrue salary expense and hours. Salary expenses for the beginning and ending payroll periods of the cost report period can be prorated to the cost report period. The proration can be based on the number of payroll days in the cost report period.

This is an example for a July 1983 through June 1984 cost reporting period. For a 14 day payroll period ending on July 9, 1983, 9/14's of the salaries and hours would be included in the cost report (with 5/14's excluded). For the 14 day payroll period ending July 7, 1984, 7/14's of the salaries and hours would be included in (with 7/14's excluded from) the cost report. If the holiday pay for July 4 of 1983 is significantly different from the holiday pay for July 4 of 1984, then the 1983 holiday pay should be fully included in the cost report and the July 4, 1984, holiday pay fully excluded from the cost report.

502 Standard Reporting Instructions. Report salary and wage expenses and the related hours on Schedules 20 through 27 of the cost report.

Line 1 - Expense For Productive Hours Worked:
Report the accrued expense of salaries and wages for productive hours worked by employees only. Do not include the expense for contracted or purchased services. The expense for the premium wage rate paid for overtime hours worked should be reported in this Line 1.

Line 2 - Productive Hours Worked:
Report the number of accrued productive hours worked by employees which are related to the reported expense. Overtime hours worked should be reported as one hour for each hour worked. Make sure to include hours worked for salaried employees.

Line 3 - Expense For Non-Productive Hours:
Report the accrued expense of salaries and wages for non-productive hours (or paid time-off) of employees.

Line 4 - Non-Productive Hours:
Report the number of non-productive hours or paid time-off hours which are related to reported non-productive expense.

503 Special Payments To Employees. Some providers make payments to employees which are not related to any specific number of hours paid. For example, such payments could be a regular flat allowance for uniforms, an annual Christmas bonus, or an annual longevity bonus. The expense for these special payments should be reported with "Employees Fringe Benefit Expense" on Schedule 28, Line 16. Do not report these expenses in Line 3 of Schedules 20 to 27.

504 Expense For Non-Productive Hours. Payments are traditionally made to employees for time-off or non-productive time. Non-productive pay can include paid vacation, holiday and sick leave and other off-premise time-off including training time-off premise. Also, non-productive time can include the expense for on-premise paid time-off such as coffee break time, paid meal time, and inservice training time. The hours paid for any reported non-productive expense item cannot be included in productive hours worked.

Any premium pay portion of wages for work on holidays should be reported as non-productive salary expense. The regular pay portion of such holiday work should be reported as productive salary expense and hours worked. Overtime premium pay for work on a paid holiday should be included in productive salary expense. Examples follow.

(a) Facility A paid a nurse aide $4 per hour plus a premium of $2 per hour for 8 hours work on a holiday. Nurse aide productive salary expense and hours should include $32 and 8 hours for the aide's regular work pay. The $16 of premium pay should be included in non-productive salary expense with 8 hours paid.

(b) Facility B pays all employees for holiday time-off. If an employee works on a holiday, then the employee is paid at the regular wage rate for the worked time plus at the regular wage rate for the allowed holiday time-off hours. The salary and hours for the worked time should be reported as productive. They pay and related hours for the holiday time-off hours should be reported as non-productive.

(Section 504 is continued on next page)

The reported expense for non-productive hours must be supported by leave time records, inservice training rosters, payroll records, and any necessary worksheets developed to calculate the reported expense. Records must be in sufficient detail to identify paid time-off and its related wages and hours by employee within each cost center.

505 Estimates Of Paid Time-Off Expense. Routine payroll processing in some facilities may not generate the detail for paid time-off wages by employee in each cost center.

For paid time-off which is not routinely and systematically given to all employees (vacation, holiday, sick leave, inservice training, etc.), estimates will be accepted if:

1. The above detail (see 504) is not available and cannot be readily developed.
2. The facility does maintain records of the amount of paid time-off taken by each employee.
3. The estimation calculation utilizes these records and adequately determines non-productive salary expense and the net hours worked in each cost center.
4. Detailed and verifiable worksheets and other records are available for on-site audit.

For on-premise paid time-off which is routinely and systematically given to all employees (i.e. break time, paid meal time, etc.), reasonable and supportable estimates will be accepted if:

1. The facility has written policies for such on-premise paid time-off.
2. The facility in actual practice does routinely and systematically allow on-premise paid time-off to all employees. Key management staff do not have to be allowed such time-off for an estimate to be acceptable.
3. Based on the policy and practice, the estimation calculation adequately determines the expense of such on-premise non-productive time and the net hours worked in each cost center.
4. Detailed and verifiable worksheets are available for on-site audit.

HOURS WORKED MUST EXCLUDE THE ESTIMATED TIME-OFF HOURS.

Example. A brief example is presented below of an estimation calculation for on-premise paid time-off and the exclusion of the related hours from hours worked.

Provider A gives all employees, including full-time and part-time employees, a 10 minute paid break every 4 hours.

Break Time Given	10 minutes
On-Premise Time (4 hours)	÷ 240 minutes
Percent Of On Premise Time For Break	4.17%

Salaries and hours in the cost report must be adjusted by this 4.17% breaktime in ALL COST CENTERS. Breaktime hours must be excluded from hours worked.

	EXAMPLE COST CENTER				
	For Productive Hours Worked			For Non-Productive Hours	
	Salaries	Hours		Salaries	Hours
Gross salary expense and hours paid....................	$24,000	8,000			
Reclassify vacation, holiday, sick leave and any other off-premise paid time-off to non-productive salary expense and hours.............	(3,000)	(1,000)	------→	$3,000	1,000
Net on-premise salary expense and hours paid...........	$21,000	7,000			
Breaktime calculated (Note A) and reclassified from productive to non-productive	(876)	(292)	Note A →	876	292
Net productive and non-productive for cost center	$20,124	6,708 Hrs.		$3,876	1,292 Hrs.
For reporting line in cost center:	Line 1	Line 2		Line 3	Line 4

Note A - Breaktime estimation calculation for above.

On premise salary expense $21,000 X 4.17% = $876 breaktime salary to reclassify
On premise hours paid 7,000 Hr X 4.17% = 292 breaktime hours to reclassify from productive to non-productive

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506 Reporting Non-Productive Salary Expense Based On "Earned" Time-Off.

Providers may report non-productive salary expense and hours either:

1. Based on the paid time-off "actually used" by employees during the cost reporting period.

OR 2. Based on the paid time-off which was "earned" by and vested to employees during the cost reporting period but only if the conditions below are met. It is the facility's option to report on the earned basis.

Conditions. Non-productive expense may be reported on the basis of "earned" time-off only when:

a. Vested To Employees. Any reported expense for earned time-off must be for time-off pay which is vested to the employees. Vested means that payment for the time-off will be made to the employee even if the employee leaves employment at the facility. Payment for time-off is not vested if such payment is contingent upon continued employment and/or retirement with the facility.

b. Detailed Records. Detailed records must be routinely maintained for each employee's earned time-off hours and actually used time-off hours. Detailed and verifiable records and worksheets must show the calculation of salary expense related to the earned, but unused, paid time-off of each employee.

c. No Estimates. No general facility or cost center estimate of the earned time-off expense will be accepted.

Valuation Of Unused Time-Off. All paid time-off used by employees during the cost reporting period must be "expensed" at the wage rate actually paid to the employee for the paid time-off. The salary expense payable for earned, but unused, time-off at the end of the current cost reporting period must be valued under the same method as was used to value the payable at the end of the prior period (i.e. beginning payable for current period). For example, if the beginning salary payable was valued at each employee's last wage rate of the prior period, then the ending salary payable for unused time-off must be valued at each employee's last effective wage rate of the current cost reporting period. The Department of Health and Social Services retains the right to use an alternative valuation method if prospective expenses are significantly misrepresented by the provider's method for the reimbursement rate calculation.

Future Cost Reports. Once a provider has elected to report non-productive salary expense on the basis of "earned" time-off, such expense must be reported on the earned basis in all future cost reports. The provider may change to the "actual" basis only upon request to and approval by the Department of Health and Social Services prior to the end of the first quarter of the reporting year in which such change is to be implemented. A change back to the "earned" basis will not be subsequently allowed.

Year Of Conversion. In the reporting period a facility begins reporting on the basis of "earned" time-off, a salary expense payable for unused paid time-off must be established for both the beginning and the end of the cost reporting period. The facility must complete Footnote A on Schedule 41 of the cost report in order to identify the amount of salary expense which is in the cost report for earned, but unused, time-off of prior reporting periods. This expense for prior period earned time-off will not be included in any prospective Title XIX rate which is established from the current period's cost report.

Change Of Ownership. At the time of any change of ownership of the nursing home operation, the new owner must continue reporting on the basis of "earned" paid time-off. The new owner may permanently change to the "actual" basis upon prior approval of the Department as discussed above.

This section relates to Schedule 43 of the "Title XIX Nursing Home Cost Report" Identification of Expenses Not Related To Patient Care.

601 Expenses Related To Patient Care. These include all necessary and proper expenses which are appropriate and helpful in developing and maintaining the operation of nursing home facilities and services. Necessary and proper expenses related to patient care are usually expenses which are common and accepted occurrences in the operation of a nursing home.

Start-Up Costs. Start-up costs include those expenses which are readily attributable to and are necessary for the developing of patient care services and which were incurred during the period of preparation prior to providing the services. They are allowed to be capitalized as deferred expenses and amortized to operating expenses over a benefiting number of years. Such expenses may include administrative and nursing salaries, utilities, taxes, insurance, interest, employee training expenses, and other allowable costs incident to preparing for providing the services. These do not include organization costs and costs more appropriately capitalized as part of plant assets.

Start-up costs are incurred from the time preparation begins on a newly constructed, expanded, or converted building, wing, floor, or unit until the time the first patient is admitted (or for support service areas, until the time the areas are used for their intended purposes). If a provider intends to prepare all portions of its facility at the same time, start-up costs should be charged to a single deferred expense account and amortized when the first patient is admitted. If a provider intends to prepare portions of its facility on a piecemeal basis (by wing, floor, etc.), start-up costs should be capitalized and amortized separately for the portion(s) of the facility prepared during different time periods.

Such start-up costs incurred prior to the 1983 cost reporting period may be reported as a deferred expense and begin to be amortized in the 1983 cost report only to the extent such expenses have not been reimbursed in prior years' Title XIX rates and are identifiable and supportable. Attach a detailed description of these previously incurred start-up costs; include amounts and calendar year incurred.

602 Expenses Not Related To Patient Care. Expenses not related to patient care are expenses which are not appropriate or necessary and proper in developing and maintaining of patient care services and facilities. Such expenses are not reimbursable under the Wisconsin Title XIX program.

603 Specific Items Not Related To Patient Care. The following is a partial list of items which will generally be disallowed as not related to patient care. This list does not include all types of expenses which could be considered as not related to patient care and not reimbursable by the Title XIX program.

1. Promotional Expenses. Promotional advertising including brochures primarily for increasing utilization and soliciting residents. Advertising for stock sale and sale of plant assets. (Accepted as patient care related are ads for help, and reasonable ads and brochures for informing the public of services such as telephone directory advertising.)

2. Gifts and Flowers. Expenses for gifts and flowers for residents, former residents, their families and friends, and vendors.

3. Personal Expenses of Owners. Personal expenses of owners or their immediate family relation. Such expenses may be considered compensation to the individual or a "unique" fringe benefit to the individual (see Schedule 46).

4. Entertainment For Non-Residents. Expenses for entertaining non-residents with meals, lodging, parties and other entertainment. (Entertainment for residents or employee parties may be considered an allowable expense.)

5. Telephone, Television, Radio In Resident Rooms. Direct expenses for telephones, television, and radios located in resident rooms irregardless of whether the residents are or are not charged for the item.

6. Contributions. Contributions or donations made by the provider to organizations or individuals.

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7. Fines and Penalties. Fine and penalty expenses including, but not limited to, penalties for non-payment of payroll taxes and fines under state nursing home licensure regulations. (This does not include charges based on a reasonable percent per annum rate applied to a defaulted payment balance; such charges are most appropriately assigned to interest expense on operating working capital loans.)

8. Interest Expense On Non-Care Working Capital Loans. Interest expense on working capital loans which are not used or necessary for operating and providing nursing home services.

9. Interest Expense On Non-Care Plant Asset Loans. Interest expense on plant asset loans, or portions of such loans, which were not necessary for the acquisition or financing of plant assets used in providing nursing home services. Also, increased interest expense on unnecessary refinancing of plant asset loans.

10. Non-Care Related Membership Fees. Expenses for membership in social, fraternal and other organizations whose activities are generally unrelated to nursing home patient care or business activities. These expenses may be identified as a "unique" fringe benefit if a specific employee is the enrolled member (see Schedule 46).

11. Training Programs For Non-Employees. Expense of training for any individual not employed or subsequently employed by the provider.

12. Special Legal and Professional Fees. Expenses incurred for defending against charges of overpayment or fraud <u>or</u> expenses related to litigation initiated by the provider against government regulatory or reimbursement agencies may or may not be allowed as related to patient care. Allowability of such expenses will depend on the circumstances of a case and/or the outcome of a case. Identify such special legal and professional fees for the <u>current</u> reporting period on Schedule 43 of the cost report and attach a sheet describing each case, status of each case, and the related current expense.

    Recognition of such expenses for reimbursement may be deferred until after the case is decided or settled. The provider may defer such non-allowable expenses for Title XIX cost reporting purposes under the description "Deferred Legal Case Expenses Previously Not Allowed". Each cases' deferred expenses should be separately identified and separately reported. Following a decision or settlement of the case, the provider may amortize the deferred expense to operations over a period which generally should not exceed ten years. Report amortized expenses on Schedule 32 of the cost report and attach a sheet describing each case, key dates relating to the case, the outcome, and list the deferred expenses by fiscal year in which incurred. The Department shall determine the allowability of the amortized expense for reimbursement.

13. Owner or Key-Person Life Insurance. The expense for any life insurance policy in which the facility is named beneficiary is not considered as related to patient care.

    For most reporting periods beginning July 1, 1978, premiums for life insurance required by a mortgage will be allowed for: (a) declining term or term life insurance, or (b) the premiums less the increase in cash surrender value. Also, as of the 1983 cost reporting period, the lendor must be designated beneficiary and insurance proceeds will be applied to the debt balance. Nevertheless, the expense for such life insurance which is substantially in excess of the remaining debt principle is not allowable.

14. Taxes. Certain taxes levied on the nursing home provider or related parties:

    a. Federal, state and local income taxes, excess profit taxes and franchise taxes based on income.

    b. Taxes for which exemptions are available to the nursing home.

    c. Taxes on excess property.

    d. Taxes levied against patients but paid for by the nursing home.

    e. Special assessments on property which represent capital improvements such as sewers, water mains and pavements should be capitalized in land or plant asset accounts and not expensed in the year incurred.

15. Fund Raising Expenses. Direct expenses for fund raising campaigns or activities. If fund raising activities are significant, then shared and indirect expenses should be allocated to the activities as is discussed in Section 700 of these instructions and Schedule 4 of the cost report.

16. Excess Property. Expenses related to property in excess of what is reasonably needed to provide patient care. These expenses can include, but are not limited to, property tax, interest, depreciation and insurance. Expenses for property reasonably needed for standby purposes is acceptable as patient care related.

17. Gift, Flower, Coffee Shops, and Snack Counters. Direct expenses for the operation of gift, flower, coffee shops, and snack counters are not related to patient care. If the operation is significant, then indirect expenses should be allocated as discussed in Section 700 of these instructions.

18. Stockholder Servicing Expenses. Expenses incurred primarily for the benefit of stockholders or other investors relate to the equity interest of such parties and not to patient care. This may include expenses for preparation of corporate reports or for stockholders' meetings.

19. Reorganization Expenses. Expenses connected with the reorganization of the form of the business or of a corporation are not related to patient care.

20. Purchase of Corporate Stock. Expenses incurred which relate to the purchase of the capital stock of a nursing home corporation may or may not be allowed as patient care related. Such expenses can include, but are not limited to, legal fees and interest expense on loans to acquire such stocks.

    Also, the "write-up" of the historical cost of corporate plant assets based on the purchase price of the corporation's capital stock, and the related depreciation of such a "write-up" may or may not be allowed as patient related expense and historical capitalized cost.

    The allowability of these expenses depends on the circumstances of each situation and requires a detailed analysis by the Department of the circumstances. These expenses should be identified and listed in detail on a separate sheet attached to the cost report. Purchasers of capital stock of a home are advised to contact the Department regarding the allowability of such expenses for reimbursement before completing the transaction.

21. Goodwill. Goodwill is not related to patient care. At the time of the acquisition of the physical plant and/or the operation, goodwill must be separately identified and valued along with other acquired assets in accordance with generally accepted accounting principles. Goodwill which has been internally generated as, for example, from a reorganization of the provider, is not related to patient care.

    Also, interest expense related to the acquisition of goodwill is not allowable as related to patient care.

604 Reporting Expenses Not Related To Patient Care

1. To the extent possible, all known expenses in the cost report which are not related to patient care are to be identified and listed on Schedule 43 of the cost report.

2. As a minimum tolerance level, the Department will consider reporting errors or omissions totaling up to $500 or $5 per bed per year (whichever is greater) for all non-patient care related expenses as not being significant. Any tolerance for additional omissions or errors depends on the circumstances.

3. Questionable Items. When the provider is doubtful about the allowability of an expense for reimbursement, the provider may attach a sheet to the cost report identifying the expense and requesting the Department to review it for allowability. Relevant details and arguments for the review should also be presented.

701 General. Many Title XIX nursing home providers are operated in conjunction with other major revenue generating activities within the nursing home or with non-nursing home activities. These activities are to be identified on Schedule 4 of the "Title XIX Nursing Home Cost Report".

Direct Expenses. A multi-purpose operation will generally incur direct expenses which are readily identifiable with and ascribable to the nursing home and each revenue activity. Such direct expenses may include expenses for salaries, materials, services and physical plant space which can be identified with each activity.

Shared Services. Also, the nursing home and the other revenue activities may share the services of centralized functions or unassigned indirect expenses. Shared services could include administration, plant operation and maintenance, dietary, housekeeping and laundry services. Unassigned indirect expenses could include utilities, depreciation, interest, property tax, and employee fringe benefit expenses. These expenses are most appropriately allocated between the nursing home provider and the other revenue activities using statistics which reasonably and fairly reflect the benefits each activity derives from the shared service. For example, dietary expenses could be allocated on the basis of meals served and maintenance could be allocated on the basis of building square feet used by the nursing home and each revenue activity.

702 Cost Reporting. The "Title XIX Nursing Home Cost Report" should include all expenses which apply to the Title XIX nursing home provider. Any direct expenses of the major revenue activities should be separated from the direct nursing home expenses. Shared service expenses and unassigned indirect expenses must be allocated between the nursing home and the other revenue generating activities.

Two alternatives are available for cost reporting:

First Alternative. All expenses of the operation may be reported in this cost report. Direct expenses which are not assignable to the nursing home may be reported in Schedule 27 "Other Cost Centers". Expenses for shared services and indirect expenses should be allocated on the schedules provided in this cost report.

Second Alternative. This cost report may include only the direct expenses assignable to the nursing home and that portion of shared and indirect expenses which have ben allocated to the nursing home. This second alternative should be used if the allocation schedules provided in this cost report do not allow for a reasonable and fair allocation of expenses.

The nursing home must submit allocation schedule with this cost report which disclose how shared and indirect expenses were allocated among the nursing home and the other revenue generating activities. These schedules must:

-- Describe the allocation technique used.

-- Describe the type and amount of allocation basis used for allocating each shared service and indirect expense.

-- Identify the percent of each cost center's expense which was allocated to the nursing home provider.

703 Hospital Based Facilities. A cost allocation system includes two basic elements: (1) the type of basis on which expenses are allocated such as meals for dietary expenses or square feet for maintenance expenses, and (2) the method of cost allocation such as the step-down method required by Medicare for many hospitals.

Type of allocation basis. For the "Title XIX Nursing Home Cost Report", a hospital based facility generally should use the same basis for allocating expenses to the nursing home as is used for its Medicare cost report. Be careful that the amounts used for any allocation basis, especially square feet, allocated a reasonable and fair portion of expenses to the nursing home.

Method of cost allocation. A hospital based facility is not required to use the Medicare step-down method for allocating expenses in the cost report. It can use the allocation schedules provided in the report or use a similar method which reasonably and fairly allocates expenses to the nursing home.